

PROPOSED RESOLUTION

RES. W-4988
DWA/RSK/BMD/PTL/ds4

AGENDA ID #13062
ITEM #11
(Rev. 2) 7/9/2014 9:30 A.M.

UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-4988
July 10, 2014

RESOLUTION

**(RES. W-4988) DEL ORO WATER COMPANY FERNDALE
DISTRICT. ORDER AUTHORIZING AN INTERIM
GENERAL RATE INCREASE, SUBJECT TO REFUND, OF
\$54,222, OR 11.30%, FOR TEST YEAR 2013.**

SUMMARY

Del Oro Water Company filed Advice Letter 357 on June 20, 2013, requesting authority under Section VI of General Order 96-B and Section 454 of the Public Utilities Code to increase rates for water service in its Ferndale District to produce additional revenues of \$66,899, or 12.52%, above current revenues in Test Year 2013 to recover increased expenses and earn an adequate return on investment.

This resolution grants an interim general rate increase, subject to refund, of \$54,222, or 11.30%, and a rate of return of 8.8% for Test Year 2013.

This resolution also addresses issues of concern to the Division of Water and Audits with respect to Del Oro Water Company's affiliate transactions. As discussed in Resolution W-4954 for Del Oro Water Company's California Pines District, Del Oro Water Company was directed to file an application for review of its general office, affiliate transactions and non-tariffed goods and services. Del Oro Water Company filed this application (A.13-12-002) on December 2, 2013. Consistent with Resolution W-4954, the rates adopted in this resolution are interim rates, subject to refund, based on the findings of that application.

BACKGROUND

The last general rate case (GRC) for Del Oro Water Company's (DOWC) Ferndale District (Ferndale) was granted on January 21, 2010 pursuant to Resolution (Res.) W-4821, which authorized a general rate increase of \$23,122, or 5.15%, and a rate of return (ROR) of 10.80%.

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The present rates became effective on June 20, 2013, by approval of Advice Letter (AL) 358, which authorized an interim rate increase of 1.7%, subject to refund, if the rates established in this GRC are lower than the interim rates.

DOWC is a Class B multi-district water utility providing water service to 17 districts throughout California. Its main office is located in Chico, California. Ferndale provides service to 759 customers in the City of Ferndale and adjacent unincorporated territory, in Humboldt County. The Ferndale system consists of one well, one 990,000-gallon concrete storage tank, and an accompanying distribution system. The distribution system consists of 65,155 feet of mains ranging in size from 1 to 10 inches in diameter.

NOTICE AND PROTESTS

Notice of the public meeting and proposed rate increase was mailed to Ferndale customers on July 17, 2013. The Division of Water and Audits (Division), in cooperation with DOWC, conducted a public meeting on August 29, 2013 at 6:30 PM at the Veteran's Memorial Building, 1100 Main Street, Ferndale, CA, with 3 customers in attendance. One customer questioned the district's water consumption and DOWC's representative agreed to update the water consumption. One customer complained about his water meter's pressure. DOWC measured the customer's water meter and it indicates that the water pressure is within the guidelines in General Order 103-A. The Division and DOWC have received one protest letter regarding the size of the rate increase.

DISCUSSION

In reviewing Ferndale's rate increase request, the Division made an independent analysis of the utility's operations. Ferndale made arithmetic errors in its revenue, water consumption, and income taxes calculations. Appendix A of this resolution shows Ferndale's and the Division's estimated summary of earnings at present, proposed, and recommended rates for Test Year (TY) 2013. Ferndale was informed of the Division's differing views of revenue, water consumption, income taxes, and agreed with the Division's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B.

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Expenses

The Division reviewed DOWC's estimated 2013 operating expenses, including purchased power, employee labor, materials, plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy and included the amounts that were verifiable and deemed reasonable for ratemaking purposes.

The Division's estimate of DOWC's operating expenses for TY 2013 is based on the Division's analysis of the company's operations and expense data from the years 2010 through 2012, except for expenses relating to purchased power, employee labor, employee pensions and benefits, office and management salaries. For estimating purchased power costs, DOWC used 2012 annual usage and applied the power rates that became effective January 1, 2013. The Division concurs. For employee labor, employee pension and benefits, office and management salaries, Division compared DOWC's estimates by evaluating the salaries of comparable positions, with a similar level of work experience, responsibilities and qualifications in Humboldt County and found reasonable. For estimating all other expense categories, DOWC used the same method that Division used which is based on recorded three year average, 2010 through 2012. As a result, there are no differences between DOWC's and Division's estimates.

Allocation of Corporate Expenses

DOWC proportionally allocates the following expenses for its corporate operations among its 17 districts, based on the percentage of customers in each district relative to the total number of customers in all of its districts:

- Management, superintendent, and office salaries and benefits;
- Office rental and supplies;
- Professional services; and
- Property insurance.

DOWC has approximately 8,160 total customers in its 17 districts, and 759, or 9.3%, of these customers are in Ferndale. Based on this percentage, DOWC allocates 9.3% of its shared expenses to Ferndale. The Division finds the cost allocation proposed by DOWC for Ferndale reasonable for ratemaking purposes.

Affiliate Transactions

Res. W-4954, which provided a rate increase for DOWC's California Pines District (California Pines), discussed DOWC's non-compliance with the affiliate transaction requirements adopted in Decision (D.) 10-10-019. DOWC operates under a parent company structure. Utility Management Services (UMS) is DOWC's parent company. The Safor Corporation (Safor), a real estate holdings company, is a "C" Corporation

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incorporated in 1957. DOWC leases and shares office space in a building owned by Safor. UMS has no employees of its own; Safor and UMS utilize DOWC personnel and assets to fulfill management, office, accounting and financial duties.

In its GRC request for California Pines, DOWC did not include an apportionment for the salaries of office staff that provided services to DOWC affiliates, nor had they filed the required affiliate transaction report by the March 31, 2012 deadline. DOWC subsequently provided an apportionment for resources shared with their affiliates, and filed their affiliate transaction report on April 2, 2013. The report states that 2.88% of management employee time is spent on affiliate related work. The Division utilizes this apportionment for office staff provided by DOWC to make its salary estimates for TY 2013.

As discussed in Res. W-4954, we directed DOWC to file an application for review of its general office, affiliate transactions and non-tariffed goods and services within 60 days of the effective date of Res. W-4954. DOWC filed this application (A.13-12-002) on December 2, 2013. Furthermore, the Division directed that the rates in any future GRC, including this GRC for Ferndale, will be considered "interim rates" and subject to refund based on the findings of the application. Accordingly, the rates authorized in this resolution are considered interim rates, subject to refund, based on the findings of the application addressing affiliated interests.

Rate Base

DOWC proposed no plant additions in TY 2013, therefore, there are no differences between DOWC's and Division's estimates in depreciation, taxed other than income, and rate base.

Reduced Rate of Return

To mitigate the impact of the rate increase, the Division negotiated with DOWC and reached a settlement.

Although DOWC is a Class B water utility with an allowed ROR of 10.8% based on its capital study, DOWC is willing to reduce the ROR from 10.8% to 8.8% for TY 2013 to lessen the impact of the rate increase.

Revenues and Rate Design

Based on the reduced rate of return the Division recommends that DOWC be granted an increase in revenue of \$54,222, or 11.30%, for TY 2013, which provides a ROR of 8.8% at the Division's proposed rates.

Ferndale's interim rates became effective on June 20, 2013, by approval of AL 358, which authorized an interim rate increase of 1.7%, subject to refund, if the rates

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established in this GRC are lower than the interim rates. The rates authorized by this Resolution are higher than the interim rates; therefore, Ferndale should be allowed to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates.

DOWC is a class B water utility. The Division proposed rate design would collect 50% of fixed costs through the service charge. The rates proposed by the Division are shown in Appendix B.

Ferndale's current rate structure consists of one schedule: No. FD-1A, Annual General Metered Service. At the Division's recommended rates shown in Appendix B, the monthly bill for a residential customer using 10 Ccf (One Ccf equals 100 cubic feet) of water with a 5/ 8 x 3/ 4-inch meter will increase from \$62.97 to \$70.40, which is \$7.43 or 11.80%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

DOWC has no outstanding compliance orders and the utility has been filing annual reports as required. DOWC has submitted an Affiliate Transaction Report for 2013 as required by D. 10-10-019.

A review of the 2012 California Department of Public Health's (CDPH) Consumer Confidence Report for Ferndale shows that its water meets the required quality standards set by the CDPH, and that there are no testing issues with Ferndale.

COMMENTS

Public Utilities Code Section 311(g)(1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this draft resolution was mailed to all parties and made available for public comment on June 6, 2014. No comments were received.

FINDINGS

1. The present rates became effective on June 20, 2013, by approval of Advice Letter (AL) 358, which authorized an interim rate increase of 1.7%, subject to refund, if the rates established in this general rate case are lower than the interim rates.

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2. Del Oro Water Company (DOWC) filed an application (A.13-12-002) on December 2, 2013 for the affiliate transaction requirements adopted in Decision 10-10-019.
3. Pending the findings of A.13-12-002, rates authorized in this resolution should be considered interim rates subject to refund.
4. DOWC is a Class B water utility with an allowed Rate of Return (ROR) of 10.8% based on its capital study.
5. DOWC is willing to reduce the ROR from 10.8% to 8.8% for Test Year (TY) 2013 to lessen the impact of the rate increase.
6. At the Division of Water and Audits' (Division's) recommended rates shown in Appendix B, the monthly bill for a residential customer using 10 Ccf (One Ccf equals 100 cubic feet) of water with a 5/ 8 x 3/ 4-inch meter will increase from \$62.97 to \$70.40, which is \$7.43 or 11.80%.
7. DOWC should be allowed to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates.
8. The Division's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted. DOWC agrees with the Summary of Earnings contained in Appendix A.
9. The rates recommended by the Division in Appendix B are reasonable and should be adopted.
10. The quantities in Appendix D used to develop the Divisions recommendations are reasonable and should be adopted.

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THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Ferndale District, to file a supplemental advice letter with the revised rate schedule attached to this Resolution as Appendix B, and concurrently cancel its presently effective rate Schedule No. FD-1A, Annual General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Del Oro Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from June 20, 2013, the interim rate date, to the effective date of the new rates established in this Resolution. This advice letter shall become effective upon approval by Staff of the Division of Water and Audits.
3. Rates authorized in this resolution shall be interim rates subject to the findings of the application ordered in Resolution W-4954 and subject to refund.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on July 10, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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APPENDIX A DEL ORO WATER COMPANY FERNDAL DISTRICT Summary of Earnings - Test Year 2013

| | UTILITY | | | DIVISION | |
|--------------------------------|---------------|----------------|---------------|----------------|-------------------|
| | Present Rates | Proposed Rates | Interim Rates | Proposed Rates | Recommended Rates |
| Operating Revenues | | | | | |
| Metered Water Revenue | \$467,521 | \$534,420 | \$480,198 | \$534,420 | \$534,420 |
| Total Revenue | 467,521 | 534,420 | 480,198 | 534,420 | 534,420 |
| Operating Expenses | | | | | |
| Power | 10,424 | 10,424 | 10,424 | 10,424 | 10,424 |
| Other Volume Related | 4,002 | 4,002 | 4,002 | 4,002 | 4,002 |
| Employee Labor | 144,929 | 144,929 | 144,929 | 144,929 | 144,929 |
| Materials | 4,738 | 4,738 | 4,738 | 4,738 | 4,738 |
| Contract Work | 765 | 765 | 765 | 765 | 765 |
| Transportation Expenses | 19,573 | 19,573 | 19,573 | 19,573 | 19,573 |
| Other Plant Maintenance | 630 | 630 | 630 | 630 | 630 |
| Office Salaries | 54,414 | 54,414 | 54,414 | 54,414 | 54,414 |
| Management Salaries | 11,946 | 11,946 | 11,946 | 11,946 | 11,946 |
| Employee Pensions and Benefits | 41,245 | 41,245 | 41,245 | 41,245 | 41,245 |
| Uncollectibles | 201 | 201 | 201 | 201 | 201 |
| Office Services and Rentals | 11,613 | 11,613 | 11,613 | 11,613 | 11,613 |
| Office Supplies and Expenses | 31,711 | 31,711 | 31,711 | 31,711 | 31,711 |
| Professional Services | 1,518 | 1,518 | 1,518 | 1,518 | 1,518 |
| Insurance | 17,297 | 17,297 | 17,297 | 17,297 | 17,297 |
| Regulatory Commission Expense | 333 | 333 | 333 | 333 | 333 |
| General Expense | 3,251 | 3,251 | 3,251 | 3,251 | 3,251 |
| Subtotal | 358,590 | 358,590 | 358,590 | 358,590 | 358,590 |
| Depreciation | 45,993 | 45,993 | 45,993 | 45,993 | 45,993 |
| Taxes Other Than Income | 35,533 | 35,533 | 35,533 | 35,533 | 35,533 |
| State Income Taxes | 2,423 | 3,993 | 3,534 | 8,336 | 8,336 |
| Federal Income Taxes | 5,659 | 6,176 | 5,481 | 17,479 | 17,479 |
| Total Deductions | 446,286 | 450,285 | 449,131 | 465,931 | 465,931 |
| Net Revenue | 21,235 | 84,135 | 31,067 | 68,489 | 68,489 |
| Rate Base | | | | | |
| Average Plant | 1,526,459 | 1,526,459 | 1,526,459 | 1,526,459 | 1,526,459 |
| Average Accum Dep | 716,484 | 716,484 | 716,484 | 716,484 | 716,484 |
| Net Plant | 809,975 | 809,975 | 809,975 | 809,975 | 809,975 |
| Plus: Working Cash | 23,089 | 23,089 | 23,089 | 23,089 | 23,089 |
| Mat'l & Supplies | 7,000 | 7,000 | 7,000 | 7,000 | 7,000 |
| Less: Advances | 61,038 | 61,038 | 61,038 | 61,038 | 61,038 |
| Contributions | 0 | 0 | 0 | 0 | 0 |
| Total Rate Base | 779,026 | 779,026 | 779,026 | 779,026 | 779,026 |
| ROR = Net Rev/Rate Base | 2.73% | 10.80% | 3.99% | 8.80% | 8.80% |

(END OF APPENDIX A)

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APPENDIX B

DEL ORO WATER COMPANY FERNDALE DISTRICT

Schedule No. FD-1A

ANNUAL GENERAL METERED SERVICE Test Year 2013

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Ferndale and adjacent unincorporated territory, Humboldt County.

RATES

| | Per Meter Per Month | |
|---|------------------------|-----|
| Quantity Rate: | | |
| For all water delivered per 100 cu. ft. | \$ 4.81 | (I) |
| Service Charge: | | |
| For 5/8 x 3/4 inch meter | \$ 22.30 | (I) |
| For 3/4 inch meter | \$ 33.46 | |
| For 1 inch meter | \$ 55.76 | |
| For 1-1/2 inch meter | \$ 111.52 | |
| For 2 inch meter | \$ 178.44 | |
| For 4 inch meter | \$ 557.62 | |
| For 6 inch meter | \$1,115.25 | |
| For 8 inch meter | \$1,784.40 | (I) |

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

(END OF APPENDIX B)

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APPENDIX C

DEL ORO WATER COMPANY FERNDALE DISTRICT

COMPARISON OF RATES TEST YEAR 2013

| | <u>Interim Rates</u> | <u>Recommended Rates</u> | <u>Amount of Increase</u> | <u>Percent Increase</u> |
|---------------------------|--------------------------|------------------------------|-------------------------------|-----------------------------|
| Service Charge: | | | | |
| For 5/ 8 x 3/4-inch meter | \$20.27 | \$22.30 | \$2.03 | 10.02% |
| For 3/ 4-inch meter | \$30.42 | \$33.46 | \$3.04 | 10.00% |
| For 1-inch meter | \$50.69 | \$55.76 | \$5.07 | 10.01% |
| For 1 1/ 2-inch meter | \$101.37 | \$111.52 | \$10.15 | 10.02% |
| For 2-inch meter | \$162.20 | \$178.44 | \$16.24 | 10.02% |
| For 4-inch meter | \$506.85 | \$557.62 | \$50.77 | 10.02% |
| For 6-inch meter | \$1,013.72 | \$1,115.25 | \$101.53 | 10.02% |
| For 8-inch meter | \$1,621.95 | \$1,784.40 | \$162.45 | 10.02% |

Quantity Rate:

| | | | | |
|--------------------------|--------|--------|--------|--------|
| All water per 100 cu.ft. | \$4.27 | \$4.81 | \$0.54 | 12.65% |
|--------------------------|--------|--------|--------|--------|

A monthly bill comparison for a customer with a 5/ 8 x 3/4-inch meter is shown below:

| | | | | |
|-------------------|----------|----------|---------|--------|
| Usage | | | | |
| <u>100 cu.ft.</u> | | | | |
| 0 | \$20.27 | \$22.30 | \$2.03 | 10.02% |
| 10 (Avg.) | \$62.97 | \$70.40 | \$7.43 | 11.80% |
| 20 | \$105.67 | \$118.50 | \$12.83 | 12.15% |

(END OF APPENDIX C)

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APPENDIX D

DEL ORO WATER COMPANY FERNDAL DISTRICT

ADOPTED QUANTITIES TEST YEAR 2013

| | |
|-------------------------------------|-----------|
| 1. Purchased Power | |
| Total Cost | \$10,424 |
| 2. Water Sales in Ccf | 58,086 |
| 3. Payroll | |
| Employee Labor | \$144,929 |
| Office Salaries | \$ 54,414 |
| Management Salaries | \$ 11,946 |
| 4. Payroll Taxes | \$ 17,657 |
| 5. Property Taxes | \$ 17,876 |
| 6. Service Connections - Meter Size | |
| 5/8 x 3/4" | 729 |
| 3/4" | 6 |
| 1" | 14 |
| 1-1/2" | 5 |
| 2" | 3 |
| 4" | 0 |
| 6" | 1 |
| 8" | <u>1</u> |
| Total Metered | 759 |

Adopted tax calculation

| | |
|---------------------------------|-----------|
| 1. Operating Revenues | \$534,420 |
| 2. Expenses | 358,590 |
| 3. Depreciation | 45,993 |
| 4. Payroll Taxes | 17,657 |
| 5. Property Taxes | 17,876 |
| 6. Interest Expense | 0 |
| 7. Taxable Income for State Tax | 94,304 |
| 8. State Tax (8.84%) | 8,336 |
| 9. Taxable Income for FIT | 85,968 |
| 10. Federal Tax | 17,479 |

(END OF APPENDIX D)

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-4988 on all parties in these filings or their attorneys as shown on the attached lists.

Dated June 6, 2014, at San Francisco, California.

/s/ DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

**DEL ORO WATER COMPANY
ADVICE LETTER NO. 357
SERVICE LIST**

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California Public Utilities Commission

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